

Kristen Heinlein, CPA

<p style="text-align: right;">Page 98</p> <p>1 referring to.</p> <p>2 MR. TORBORG: Relative to the other</p> <p>3 items for previous months that where the credit</p> <p>4 balance entries of the month of July, 116,000,</p> <p>5 month of August, 126,000.</p> <p>6 MR. McDONOUGH: Okay.</p> <p>7 Q. Then you go down to March and then</p> <p>8 there's a credit entry of \$3,112,436, right?</p> <p>9 A. Yes.</p> <p>10 Q. Do you recall noting the large,</p> <p>11 unusual credit entry on the Elkins Park</p> <p>12 inpatient schedule?</p> <p>13 MR. STEINBERG: Object to form.</p> <p>14 A. I don't know if I did or not.</p> <p>15 Q. Based on your -- based on your</p> <p>16 practices at the time, your recollections of</p> <p>17 the -- of your practice at the time, is this</p> <p>18 something that you think you would have</p> <p>19 noticed?</p> <p>20 A. I don't know.</p> <p>21 MR. STEINBERG: Objection, vague.</p> <p>22 Q. For the record, what I've shown the</p> <p>23 witness has been marked previously as Exhibit</p> <p>24 4255. It is, again, a copy of a diskette, the</p> <p>25 contents of which were produced to us in August</p>	<p style="text-align: right;">Page 100</p> <p>1 include that information.</p> <p>2 MR. McDONOUGH: You mean the</p> <p>3 schedule, when you ask if you remember the</p> <p>4 schedule?</p> <p>5 MR. TORBORG: Yes.</p> <p>6 Q. So if you would look through the</p> <p>7 schedule that is the first part of that</p> <p>8 document.</p> <p>9 A. Okay.</p> <p>10 Q. Miss Heinlein, do you recall this</p> <p>11 schedule?</p> <p>12 A. No.</p> <p>13 Q. Can you provide any insight as to</p> <p>14 whether or not this schedule was something that</p> <p>15 would have been produced by Coopers & Lybrand</p> <p>16 or by AHERF?</p> <p>17 A. It would have been produced by</p> <p>18 Coopers.</p> <p>19 Q. And what makes you say that?</p> <p>20 A. It's a summary of the roll-forward</p> <p>21 schedules obtained by the client.</p> <p>22 Q. Based on your involvement with the</p> <p>23 1997 audit, particularly the receivables, do</p> <p>24 you believe that this is a schedule that you</p> <p>25 would have created even though you can't recall</p>
<p style="text-align: right;">Page 99</p> <p>1 of 2005. The PWC --</p> <p>2 MR. STEINBERG: 2000?</p> <p>3 MR. McDONOUGH: Three.</p> <p>4 MR. TORBORG: 3. I'm sorry.</p> <p>5 Again, with a file directory</p> <p>6 attached to it.</p> <p>7 Q. Miss Heinlein, my question is very</p> <p>8 simple, that is do you recognize the</p> <p>9 handwriting on the first page on the copy of</p> <p>10 the diskette?</p> <p>11 A. Yes, it's mine.</p> <p>12 Q. For the record, what I've marked as</p> <p>13 Exhibit 4291 is a schedule we printed off the</p> <p>14 diskette, the contents of which pictured on the</p> <p>15 previous exhibit that we looked at, 4255, file</p> <p>16 name, bad debt.WK4 under the folder AHERF.</p> <p>17 Again, that's what the Bates</p> <p>18 numbering is intended to reflect.</p> <p>19 And then in addition to the actual</p> <p>20 schedule printed off, I've appended to the last</p> <p>21 three pages of what I've marked as Exhibit 4291</p> <p>22 screen prints of the -- how I pulled it off the</p> <p>23 CD produced to us by Coopers & Lybrand.</p> <p>24 So when I ask you about whether or</p> <p>25 not you remember this diskette, I don't mean to</p>	<p style="text-align: right;">Page 101</p> <p>1 it today?</p> <p>2 A. Probably, yes.</p> <p>3 Q. If I could ask you to flip -- I</p> <p>4 apologize, I don't have Bates numbers on</p> <p>5 these -- but to the schedule that has Bucks at</p> <p>6 the top. It's about five in.</p> <p>7 A. Okay.</p> <p>8 Q. Then if you would also, please, get</p> <p>9 out the bad debt roll-forward schedule I marked</p> <p>10 as Exhibit 4286.</p> <p>11 Let me ask you, Miss Heinlein,</p> <p>12 there is a -- in it there is a note T/B in the</p> <p>13 row beginning allowance underneath the column</p> <p>14 total?</p> <p>15 A. Yes.</p> <p>16 Q. Do you know what that means?</p> <p>17 A. Trial balance.</p> <p>18 Q. What does that note signify?</p> <p>19 A. That the beginning allowance agrees</p> <p>20 to the trial balance.</p> <p>21 Q. Trial balance meaning the general</p> <p>22 ledger?</p> <p>23 A. General ledger, yes.</p> <p>24 Q. So you would have tied it to the</p> <p>25 general ledger; that's what the T/B annotation</p>

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<p style="text-align: right;">Page 102</p> <p>1 means?</p> <p>2 A. Yes.</p> <p>3 Q. How about the I/S annotation below</p> <p>4 it?</p> <p>5 A. Income statement.</p> <p>6 Q. Can you tell me what that means?</p> <p>7 A. I would have tied the bad debt</p> <p>8 expense numbers to the income statement.</p> <p>9 Q. On the general ledger?</p> <p>10 A. On the general ledger.</p> <p>11 Q. Now, if you would look back,</p> <p>12 please, to the bad debt roll-forward schedule I</p> <p>13 asked you to pull out, Exhibit 4286, underneath</p> <p>14 the column ATB.</p> <p>15 A. Yes.</p> <p>16 Q. I can represent to you that if you</p> <p>17 would add up the amounts in that column, minus</p> <p>18 3 million dollars, you would get an amount that</p> <p>19 ties within \$12,000 to the bad debt expense</p> <p>20 number in the inpatient column under the row</p> <p>21 bad debt expense. Okay?</p> <p>22 A. Okay.</p> <p>23 Q. Do you recall noting that when you</p> <p>24 created this schedule whether you would have</p> <p>25 noted that the large credit entry of 3 million</p>	<p style="text-align: right;">Page 104</p> <p>1 noting that the bad debt expense figure in the</p> <p>2 Bucks County inpatient column of \$1,067,747 was</p> <p>3 a lot lower than the amounts in the ATB column?</p> <p>4 MR. McDONOUGH: Object to form.</p> <p>5 A. No.</p> <p>6 Q. Based on your practices at the</p> <p>7 time, do you believe that's something you would</p> <p>8 have recognized?</p> <p>9 MR. McDONOUGH: There's no</p> <p>10 foundation that she even saw 4286, so you're</p> <p>11 assuming in your question that she did and</p> <p>12 didn't do something.</p> <p>13 MR. TORBORG: I think you mean she</p> <p>14 doesn't recall Exhibit 4291, right?</p> <p>15 MR. McDONOUGH: No. I think she</p> <p>16 doesn't recall 4286.</p> <p>17 MR. TORBORG: I think she said that</p> <p>18 she remembered these, actually.</p> <p>19 A. I remember the roll-forward one.</p> <p>20 MR. McDONOUGH: I'm sorry, I</p> <p>21 thought she testified she remembered</p> <p>22 roll-forwards but not these particular entries</p> <p>23 that you were referring her to on these</p> <p>24 particular exhibits.</p> <p>25 MR. TORBORG: Well, the record will</p>
<p style="text-align: right;">Page 103</p> <p>1 dollars -- 3,000,109.925 cents did not go</p> <p>2 through bad debt expense?</p> <p>3 MR. McDONOUGH: Well, first of all,</p> <p>4 you got the number wrong, but -- it's</p> <p>5 \$3,109,925.</p> <p>6 MR. TORBORG: Thank you.</p> <p>7 MR. McDONOUGH: Second, there's no</p> <p>8 foundation that connects these two documents.</p> <p>9 MR. TORBORG: I'm trying to see if</p> <p>10 it refreshes her recollection about doing it.</p> <p>11 If it doesn't, then we'll move on.</p> <p>12 A. I'm sorry, can you repeat the</p> <p>13 question?</p> <p>14 Q. My question is, I think you</p> <p>15 recalled reviewing the bad debt roll-forward</p> <p>16 schedules during the preliminary phase of the</p> <p>17 audit, right?</p> <p>18 A. Yes.</p> <p>19 Q. And although you don't recall</p> <p>20 creating this schedule that I've marked as</p> <p>21 Exhibit 4291, you think that you probably did</p> <p>22 create it?</p> <p>23 A. Yes.</p> <p>24 Q. Right?</p> <p>25 My question is, do you recall</p>	<p style="text-align: right;">Page 105</p> <p>1 reflect what she said, but I do think she</p> <p>2 testified that she remembered these.</p> <p>3 MR. McDONOUGH: I don't want to</p> <p>4 obstruct you. I'm just objecting to form, lack</p> <p>5 of foundation.</p> <p>6 Q. You've already testified that you</p> <p>7 don't recall this particular schedule, right?</p> <p>8 A. Yes.</p> <p>9 MR. McDONOUGH: This one being?</p> <p>10 MR. TORBORG: 4291. I'm sorry.</p> <p>11 Thank you.</p> <p>12 Q. Do you recall noting in reviewing</p> <p>13 the roll-forward schedules in the preliminary</p> <p>14 phase of the audit that for one or many of the</p> <p>15 DVOG entities, the balances in the reserve</p> <p>16 accounts had reduced significantly since the</p> <p>17 beginning of the year?</p> <p>18 A. Not that I recall.</p> <p>19 Q. Based on your practices at the</p> <p>20 time, do you believe that's something you would</p> <p>21 have noticed?</p> <p>22 MR. STEINBERG: Objection. Calls</p> <p>23 for speculation, and vague.</p> <p>24 A. I don't know. I don't know. I</p> <p>25 don't remember.</p>

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1 Q. Just so I'm clear, I'm not asking
2 whether you actually remember. I'm asking
3 based on your practices at the time, is it
4 something you believe you would have
5 recognized?
6 A. I don't know. Again, I don't
7 remember what my practices were seven years
8 ago.
9 MR. TORBORG: Why don't we hand her
10 all of these.
11 These are all the next five
12 exhibits.
13 MR. McDONOUGH: Are we done, at
14 least temporarily, with 4286?
15 MR. TORBORG: We're done.
16 MR. McDONOUGH: So you can put
17 those in the pile.
18 Q. We start off the first exhibit in
19 this stack as 4292, Miss Heinlein, right?
20 A. Yes.
21 Q. Thank you.
22 So that will be the next five
23 exhibits.
24 Miss Heinlein, I'm going to ask you
25 if you would flip through those schedules to

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1 the extent you feel necessary to tell me
2 whether you remember them. Then I'll have some
3 more specific questions for you later.
4 For the record, the exhibits that
5 I've marked here were printed off a prior
6 version of the CLASS database than the final
7 version. This one was printed off the Meyer
8 version of CLASS. That's what the Bates
9 numbers at the bottom of the page are
10 supposed -- or are intended to reflect.
11 MR. McDONOUGH: Just so this
12 witness understands, there were some versions
13 of the AHERF work papers in CLASS that had not
14 been replicated at various stages, and this is
15 one of those versions that had not been
16 replicated past a certain date, and I'm not
17 sure what that date is, but it's a version that
18 belonged to Meyer.
19 THE WITNESS: Okay.
20 A. I recognize the roll-forwards.
21 Q. In addition to containing
22 roll-forwards, these exhibits that I've marked
23 as Exhibits 4292 through 4296 also have what is
24 known as the bad debt reserve calculation
25 schedules, is that right?

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1 A. Yes.
2 Q. Do you recall those schedules?
3 A. Yes.
4 MR. McDONOUGH: Can I just clarify
5 that the printouts at the end of the schedules,
6 again, are --
7 MR. TORBORG: Yes, I will do that.
8 MR. STEINBERG: Thank you.
9 Q. Again, Miss Heinlein, at the end of
10 all these exhibits, I have printed off what I
11 like to call metadata information, which is
12 basically, if you go under a certain field, you
13 can figure out information that's not on the
14 actual document itself. I don't know if you
15 ever did that during the --
16 A. I didn't even know you could.
17 Q. Okay. So if I ask you if you
18 recall a document, I don't mean to incorporate
19 the metadata. I attached this on the back for
20 future reference to an attempt to avoid marking
21 documents more than once.
22 A. Okay.
23 Q. But while we're on that score, if I
24 can ask you to look at the -- go to the last
25 page of Exhibit 4292 with me in the metadata

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1 information itself, I have printed off -- and
2 if you go back four pages from that --
3 actually, five pages where the box that says
4 document has a summary that says revisions.
5 Then toward the right it says field name.
6 A. Okay.
7 Q. Okay?
8 Then I've printed off the next five
9 pages, there's some overlap between, but the
10 dates -- some different pages that came under
11 that metadata.
12 Let me ask you, do you know what
13 that field means, revisions?
14 A. No.
15 Q. If I could ask you to flip with me,
16 and I realize it will take you a while maybe to
17 find it, but where the roll-forwards of the
18 schedules start.
19 Actually, let's make this a little
20 easier. Actually, if I can find it. Did you
21 find it?
22 A. Inpatient?
23 Q. Yes, inpatient, under Bucks County.
24 A. Yes.
25 Q. Right?

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<p style="text-align: right;">Page 110</p> <p>1 And we see there, again, the -- in 2 the March row under the ATB column, there's, 3 again, a credit entry of \$3,109,925, right? 4 A. Yes. 5 Q. But this one has a D footnote next 6 to it? 7 A. Yes. 8 Q. Which on the next page states, 9 "Represents the monthly entry to bad debt 10 expense, paren, AHERF is booking to budget, end 11 paren, plus the entry of 3 million dollars from 12 the Graduate hospitals, paren, refer to the 13 issue, end paren, period. 14 "Monthly bad debt expense agrees to 15 the I/S without exception." 16 Miss Heinlein, did you write that 17 footnote? 18 A. I think so, yes. 19 - - - - - 20 (Thereupon, Deposition Exhibit 4297 21 was marked for purposes of 22 identification.) 23 - - - - - 24 Q. For the record, what I've marked as 25 Exhibit 4297 is a document bearing the Bates</p>	<p style="text-align: right;">Page 112</p> <p>1 Q. Is this that document? 2 A. Yes. 3 Q. Is this also the document that is 4 referenced in the bad debt roll-forward 5 schedule, Exhibit 4292, footnote D. It says, 6 "Refer to the issue"? 7 A. Yes. 8 Q. What is that note in Exhibit 4297 9 that says, "Represents the monthly entry to bad 10 debt expense, AHERF is booking to budget, plus 11 the entry of 3 million dollars for the Graduate 12 hospitals" mean? 13 MR. McDONOUGH: For the record, 14 it's 4292 that that footnote appears in. 15 MR. TORBORG: What did I say? 16 MR. McDONOUGH: 4297 is the issue. 17 MR. TORBORG: Yes. 18 A. I don't remember what specifically 19 I meant when I wrote it. 20 Q. Does it have reference to the 21 transfer of reserves from the Graduate entities 22 to the Delaware Valley Obligated Group 23 entities? 24 A. It appears so. 25 Q. Do you recall that issue as you sit</p>
<p style="text-align: right;">Page 111</p> <p>1 number CL232335336. It's an issue topic titled 2 50 Million Dollar Reserve Entry that was 3 created by Kristen Heinlein on June 9th, 1997, 4 last modified by Kristen Heinlein on June 9th, 5 1996. 6 MR. McDONOUGH: '97. 7 A. '97. 8 Q. I'm sorry, '97. 9 MR. McDONOUGH: Viewed it and last 10 modified it on the same day. 11 MR. TORBORG: Yes. 12 Q. Miss Heinlein, if you would review 13 that document. 14 A. Okay. 15 Q. Miss Heinlein, do you recall this 16 document? 17 A. Yes. 18 Q. Is this -- earlier I had asked you 19 if there were any documents that you reviewed 20 in your preparatory session for your third day 21 of your SEC session? 22 A. Yes. 23 Q. I believe you referenced an issue 24 document? 25 A. Yes.</p>	<p style="text-align: right;">Page 113</p> <p>1 here today, the transfer of reserves from 2 Graduate to DVOG? 3 MR. McDONOUGH: You know, just to 4 be precise -- 5 MR. TORBORG: The 50 million. 6 MR. McDONOUGH: -- the issue to 7 mean the exhibit or the issue to mean -- 8 MR. TORBORG: The broader issue. 9 MR. McDONOUGH: -- the broader 10 issue? 11 MR. TORBORG: Yes, the broader 12 issue. 13 MR. McDONOUGH: I have contended 14 throughout this case that they should have 15 thought of a different name -- 16 MR. TORBORG: Good point. 17 MR. McDONOUGH: -- for the 18 document. 19 You're talking about the broader 20 issue with the small i, basically? 21 MR. TORBORG: Thank you, yes. 22 A. Yes. 23 Q. To the best of your recollection, 24 when did you first learn that AHERF was 25 planning to transfer or had transferred</p>

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<p style="text-align: right;">Page 114</p> <p>1 reserves from the Graduate entities to the</p> <p>2 Delaware Valley Obligated Group entities' bad</p> <p>3 debt reserve accounts?</p> <p>4 A. I thought I learned about it during</p> <p>5 our year-end procedures.</p> <p>6 Q. When was that phase of the audit?</p> <p>7 A. August, September time frame?</p> <p>8 Q. That's what you thought initially?</p> <p>9 A. Yes.</p> <p>10 Q. And then did reviewing the issue</p> <p>11 document marked as 4297 refresh your</p> <p>12 recollection of when you first learned about</p> <p>13 it?</p> <p>14 A. No.</p> <p>15 Q. But it does cause you to believe</p> <p>16 that you learned about it in the preliminary</p> <p>17 phase of the audit?</p> <p>18 A. Yes.</p> <p>19 Q. By at least June 9th, 1997?</p> <p>20 A. Yes.</p> <p>21 Q. How did you come to learn about the</p> <p>22 concept of -- notice I didn't use the word</p> <p>23 issue --</p> <p>24 MR. McDONOUGH: I appreciate it.</p> <p>25 Q. -- the concept of transferring</p>	<p style="text-align: right;">Page 116</p> <p>1 going to do.</p> <p>2 MR. STEINBERG: Put it in front of</p> <p>3 her.</p> <p>4 MR. TORBORG: Since you invited</p> <p>5 this.</p> <p>6 MR. STEINBERG: Didn't mean to</p> <p>7 invite it, but I just think it's hard to deal</p> <p>8 with the prior testimony and make</p> <p>9 characterizations of it without the testimony</p> <p>10 in front.</p> <p>11 - - - - -</p> <p>12 (Thereupon, Deposition Exhibit 4298</p> <p>13 was marked for purposes of</p> <p>14 identification.)</p> <p>15 - - - - -</p> <p>16 Q. Miss Heinlein, if you could turn</p> <p>17 to, and this is a miniscript version of your</p> <p>18 testimony given on the first day of your SEC</p> <p>19 deposition, March 1, 2000, to page 88 in the</p> <p>20 little -- it has four pages on one page.</p> <p>21 MR. McDONOUGH: Just for</p> <p>22 chronology, this is about four years ago?</p> <p>23 MR. TORBORG: Yes. I don't know</p> <p>24 that it was necessary to point that out on the</p> <p>25 record, but, yes, 2000 was four years ago.</p>
<p style="text-align: right;">Page 115</p> <p>1 reserves from the Graduate entities to the</p> <p>2 Delaware Valley Obligated Group entities?</p> <p>3 A. I'm not sure who told me about the</p> <p>4 50 million dollar transfer.</p> <p>5 Q. Do you believe it's something that</p> <p>6 someone told you or something that you learned</p> <p>7 about from reviewing schedules like</p> <p>8 roll-forward schedules?</p> <p>9 A. I think someone told me.</p> <p>10 Q. Do you recall who it was that told</p> <p>11 you?</p> <p>12 A. No.</p> <p>13 Q. Do you recall if it was someone</p> <p>14 either at AHERF, the client, or within Coopers?</p> <p>15 A. I don't know.</p> <p>16 Q. Do you recall testifying during</p> <p>17 your first SEC deposition, the first day, that</p> <p>18 it was your best recollection that you learned</p> <p>19 about the concept of transferring 50 million of</p> <p>20 reserves from Graduate to DVOG from Amy</p> <p>21 Frazier?</p> <p>22 MR. STEINBERG: Objection. I think</p> <p>23 if you're going to be referencing prior</p> <p>24 testimony, you might want to put it --</p> <p>25 MR. TORBORG: That's what we're</p>	<p style="text-align: right;">Page 117</p> <p>1 Q. Page 88 -- are you with me on page</p> <p>2 88?</p> <p>3 A. Yes.</p> <p>4 Q. I'm going to read some testimony</p> <p>5 into the record starting on line 17, okay?</p> <p>6 A. Yes.</p> <p>7 Q. Where there was a question, "And</p> <p>8 with respect to that 50 million dollar</p> <p>9 transfer, what did you do?</p> <p>10 "We're talking from Graduate to</p> <p>11 Delaware Valley, correct?"</p> <p>12 Your answer, "Yes."</p> <p>13 Question, "Okay."</p> <p>14 Answer, "I received -- I learned</p> <p>15 about the 50 million from Amy Frazier. I</p> <p>16 inquired of management for journal entries and</p> <p>17 the allocation between which hospital entities</p> <p>18 it was going to and then I documented my</p> <p>19 results of my findings."</p> <p>20 Question, "What was the issue?"</p> <p>21 Answer, "I put my information in an</p> <p>22 issue to flag to Christa Porter and to Amy what</p> <p>23 I found out. I didn't relate it. I didn't</p> <p>24 categorize it as a critical matter. That was</p> <p>25 my work in process issue."</p>

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<p style="text-align: right;">Page 118</p> <p>1 MR. STEINBERG: Just to clarify, I 2 don't think it says Christa Porter. It just 3 said Christa. 4 MR. TORBORG: Christa, thank you. 5 Why can't I read documents? 6 Q. Do you recall giving this testimony 7 after having a chance to read through it with 8 me? 9 A. I guess. 10 Q. Do you believe that testimony was 11 truthful when you gave it in March of 2000? 12 A. Yes. 13 Q. If you would flip with me, please, 14 to page 219 of this transcript. I'm going to 15 do this same drill here, starting with line 16 five of page 219. Are you with me? 17 A. Yes. 18 Q. Question, "Did you ever have any 19 discussion with any members of the audit team 20 that indicated they were aware of the recording 21 of bad debt allowance is of these magnitudes, 22 20 million at Graduate, 9 million at Rancocas, 23 5 million at Mt. Sinai; were they aware of 24 that? Was this news or information to Miss 25 Frazier?"</p>	<p style="text-align: right;">Page 120</p> <p>1 where they went on the DVOG entities, if you 2 remember, or if you don't remember." 3 Your answer, "I know they told me 4 about a transfer from Graduate to DVOG, 50 5 million dollars." 6 Mr. Weiser then asked, "Do you 7 remember whether they told you or not that they 8 went into specific months and the amounts that 9 they went into -- they went in specific 10 months?" 11 The witness, "They told me March 12 and April. I don't know if they told me 13 amounts." 14 Question by Miss Pappas, "In your 15 first conversation with Amy and Christa 16 sometime in August of 1997, why don't you tell 17 us, because we've gone a little bit further 18 here, tell us what they told you. We 19 understand from what you've told us already 20 that during that first conversation -- first of 21 all, both were present at the time?" 22 Answer, "I think so." 23 Question, "Okay, and you recalled 24 them both telling you about this issue, the 50 25 million dollars?"</p>
<p style="text-align: right;">Page 119</p> <p>1 Mr. Barron interjected. "At what 2 point in time," question. Then Mr. DeLacy 3 interjected, "At any point in time during the 4 audit after you were charged with the -- with 5 investigation of this 50 million dollar 6 transfer." 7 Your answer, "Amy Frazier knew 8 about it and Christa Porter knew about it. I 9 knew that." 10 Then a question by Mr. DeLacy, but 11 did -- "But did, though, know about the amounts 12 coming at the various hospitals, coming in 13 those amounts, were they familiar with that, 14 too?" 15 Mr. Barron interjected. "Prior to 16 that point in time when she did her research?" 17 Mr. DeLacy, "Correct." Mr. Barron, "Is that 18 what you're asking?" Mr. DeLacy, "Yes." 19 Your answer, "I think so. I think 20 Christa also knew." 21 Question, "Christa Porter and Amy 22 both knew?" 23 Answer, "I think so, yes." 24 Mr. Weiser interjected, "Just to clarify, they 25 knew about the amounts coming from Graduate or</p>	<p style="text-align: right;">Page 121</p> <p>1 Answer, "Yes." 2 Question, "Issue meaning just 3 issue, not issue document?" 4 Answer, "Yes." 5 Question, "Now, in terms of what 6 they told you during that first meeting, they 7 informed you that there were transfers in March 8 and April, correct?" 9 Your answer, "Yes." 10 Question, "They further told you 11 that they came from Graduate, correct?" 12 Yes. Your answer, "Yes." 13 Question, "And they went to 14 Delaware Valley?" 15 Your answer, "Yes." 16 Miss Heinlein, do you recall giving 17 that testimony? 18 A. Yes. 19 Q. Was it truthful when you gave it? 20 A. Yes. 21 Q. And to the best of your 22 recollection at the time? 23 A. Yes. 24 MR. TORBORG: I want to do one more 25 if I could at page 188.</p>

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<p style="text-align: right;">Page 122</p> <p>1 MR. STEINBERG: I just want to add 2 that there were a couple minor discrepancies 3 when you read it, the transcript will control. 4 MR. TORBORG: Will control, 5 obviously. 6 It's quite clear that I'm unable to 7 read. 8 MR. STEINBERG: You're doing fine. 9 MR. TORBORG: Sometimes the 10 questions aren't very artfully given. 11 Q. On page 188, line eight, Miss 12 Pappas asked you a question. "Why don't we go 13 to the chronology of the 50 million. Tell me 14 everything you know about it, when you first 15 heard about it. I'll probably let you go and 16 then come back and ask some questions. What do 17 you know?" 18 Your answer, "Amy told me about it 19 in the beginning of August, right around when 20 we first started year-end field work. That's 21 when I first remembered -- first remember 22 learning about it. 23 "She instructed me to look at the 24 allocation of reserves, to which hospitals that 25 it went and then to agree the balance of the</p>	<p style="text-align: right;">Page 124</p> <p>1 do you recall? 2 MR. TORBORG: Yes. 3 MR. McDONOUGH: Or did they? 4 MR. TORBORG: I think it was do you 5 recall. Yeah. 6 MR. McDONOUGH: I'll object to form 7 of the question. 8 - - - - - 9 (Thereupon, Deposition Exhibit 4299 10 was marked for purposes of 11 identification.) 12 - - - - - 13 Q. For the record, what we've marked 14 as Exhibit 4299 is a minuscule copy of your 15 latest testimony from the SEC dated February 16 11th, 2003. 17 I would ask you, if you would, to 18 flip to the page -- it's actually at the 19 bottom. There's a little paren that says page 20 six. But I'm trying to get you to page 21 of 21 your actual transcript. They've got this in 22 sort of a scrunch format. 23 MR. McDONOUGH: I'm not following 24 you there. 25 MR. TORBORG: Page 21 of her</p>
<p style="text-align: right;">Page 123</p> <p>1 ending reserves to the general ledger and to 2 look at the journal entries to record the 50 3 million." 4 Were you able to follow? 5 A. Yes. 6 Q. Do you recall giving that 7 testimony? 8 A. Yes. 9 Q. Was it truthful and to the best of 10 your recollection at the time you gave the 11 testimony in March of 2000? 12 A. Yes. 13 Q. Do you recall what it was that 14 motivated you to put -- to create the issue 15 document that we've marked as Exhibit 4297? 16 A. I was gathering information from 17 the client and I wanted to put all of my 18 information in one spot, so I put it in an 19 issue document. 20 Q. Do you recall if -- do you recall 21 whether Miss Frazier or Miss Porter requested 22 that you put your findings in an issue 23 document? 24 A. No. 25 MR. McDONOUGH: Was that question</p>	<p style="text-align: right;">Page 125</p> <p>1 testimony. If you look at the bottom, there's 2 a little six, if that helps. 3 MR. McDONOUGH: Okay. 4 Q. Do you see page 21, Miss Heinlein? 5 Are you with me? 6 A. Yes. 7 MR. TORBORG: Everyone with me that 8 has a transcript? 9 Q. Let's go to line 13. I'm going to 10 read you some testimony. Question, "Do you 11 remember testifying on March 1 that you created 12 it -- that is in reference to the 50 million 13 dollar issue document -- after Miss Frazier 14 asked you to do some research on the issue of 15 the 50 million transfer?" 16 Your answer, "Yes." 17 Question, "Is that your 18 recollection today why you in -- in part why 19 you created it?" 20 Answer, "Yes." 21 Do you recall that testimony? 22 A. Yes. 23 Q. Was it truthful and to the best of 24 your recollection in February of 2003? 25 A. Yes.</p>

32 (Pages 122 to 125)

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1 Q. What was your initial reaction,
2 Miss Heinlein, of the concept of transferring
3 reserves from Graduate to DVOG, the 50 million?

4 MR. McDONOUGH: Object to form.

5 A. I don't know if I had any reaction.

6 Q. Do you recall discussing the
7 concept with either Miss Porter or Miss
8 Frazier?

9 A. Yes.

10 Q. What is your best recollection of
11 when you had that discussion?

12 A. In August during year-end.

13 Q. Do you recall when or where that
14 discussion took place?

15 A. Physical location?

16 Q. Yes.

17 A. It was in the Clark Building.

18 Q. Do you recall anything specific
19 that was said?

20 A. It was -- not really. I mean, we
21 talked about the 50 million dollars and what I
22 did to substantiate the 50 million dollars.

23 Q. Do you recall whether Miss Frazier
24 or Miss Porter expressed any surprise at the
25 fact -- about the transfers?

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1 middle of the first page of the document?

2 A. No, I'm not sure if I received it
3 from Amy or Christa or the client.

4 Q. Do you recall if you had -- if you
5 obtained the information through a document or
6 through conversation?

7 A. I'm not sure.

8 Q. Do you recall ever receiving any
9 document from AHERF that referred to the
10 transfers?

11 A. Yes.

12 Q. Do you recall what that document
13 looked like?

14 A. It was a chart. It had Graduate
15 information on it.

16 Q. When you say Graduate information,
17 can you be any more specific?

18 A. I'll know when I see it.

19 Unfortunately I -- I think it had the Graduate
20 hospitals at the top of it.

21 Q. Listed in a column format across
22 the top?

23 A. Across the top, yes.

24 Q. Do you recall when it was that you
25 received that document?

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1 A. Not that I recall.

2 Q. So to the best of your
3 recollection, both Miss Frazier and Miss Porter
4 were already aware of the transfers before that
5 meeting?

6 MR. McDONOUGH: Object to form.

7 MR. STEINBERG: Objection.

8 MR. McDONOUGH: The witness has
9 testified that they told her.

10 MR. TORBORG: Okay, fair enough.
11 I'll withdraw the question.

12 Q. Do you recall ever discussing an
13 issue document relating to the 50 million
14 dollar reserve entry with either Miss Porter or
15 Miss Frazier?

16 A. No.

17 Q. Do you recall that -- let me mark
18 an exhibit here.

19 If we go back to Exhibit 4297, the
20 50 million dollar reserve entry document, last
21 modified date of June 9th, 1997. Do you recall
22 where you got the information to put in the
23 detail about where the reserve transfers were
24 allocated amongst the DVOG entities that is
25 reflected in that chart, the chart in the

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1 A. No.

2 Q. Do you recall how it was that you
3 received the document?

4 A. It was either from Amy or from
5 Christa.

6 - - - - -
7 (Thereupon, Deposition Exhibit 4300
8 was marked for purposes of
9 identification.)

10 - - - - -

11 Q. Miss Heinlein, do you believe what
12 we've marked as Exhibit 4300 is the document
13 that you recalled and just tried to describe to
14 me?

15 A. Yes. Again, I'm not sure if the
16 writing was on it when I first saw it.

17 Q. You're referring to the
18 annotations?

19 A. Yes.

20 Q. Do you recognize those annotations?
21 A. Amy Frazier's. It's Amy Frazier's
22 writing.

23 Q. I'm not sure you're right on that
24 one, but that's okay.

25 A. Okay.

33 (Pages 126 to 129)

Kristen Heinlein, CPA

<p style="text-align: right;">Page 134</p> <p>1 you should. I'm just noting that for the 2 record. 3 THE WITNESS: Can you read me back 4 what he asked me, the question, please? 5 THE NOTARY: Do you just want me to 6 read the question? 7 THE WITNESS: Yes. 8 (Record read.) 9 A. I'm not going to argue with Robin 10 Schaffer's testimony. I don't know if she gave 11 it to me or not. 12 Q. If you could go back, please, to 13 the second page of Exhibit 8, Mr. Cancelmi's 14 April 14th memo. Under the section, timing of 15 recognition, there's language there where 16 Mr. Cancelmi wrote, "A determination has been 17 made that 25 million of reserves will be 18 recorded in the Delaware Valley Hospital's 19 March 1997 financial statements. The remaining 20 25 million will be recorded in the fourth 21 quarter." 22 If you would go back to your issue 23 document, Exhibit 4297. Under the issue 24 description, the fourth line down, it says, "A 25 determination was made that 25 million of</p>	<p style="text-align: right;">Page 136</p> <p>1 AFTERNOON SESSION commencing at 1:31 p.m. 2 THE VIDEOGRAPHER: Going back on 3 the record at 1:31. 4 EXAMINATION OF KRISTEN LEE HEINLEIN, CPA 5 BY MR. TORBORG: 6 Q. Welcome back, Miss Heinlein. 7 A. Thank you. 8 Q. If I could ask you to get out 9 Exhibit 8. I think it's still in front of you 10 here. I wanted to ask you some questions about 11 the language to see if it triggers -- actually 12 I just want to use this as sort of a platform 13 to ask some other questions. 14 A. Okay. 15 Q. The second paragraph, fourth 16 sentence starts, "The justification for 17 recording these reserves." 18 The memo stated, "The justification 19 for recording these reserves on the Graduate 20 hospitals' financials is that our experience 21 suggests that similar to other AHERF 22 acquisitions, it is inevitable that unknown 23 loss contingencies exist related to the 24 Graduate hospitals that were not identified 25 during the due diligence process. Granted, the</p>
<p style="text-align: right;">Page 135</p> <p>1 reserves was recorded in the DV Hospitals in 2 the March, comma, 1997 financials and the 3 remaining -- remaining 25 million dollars would 4 be recorded in April." 5 Do you note similarities between 6 that language? 7 MR. McDONOUGH: Object to form. 8 A. There are similarities, yes. 9 Q. Given that, do you believe you may 10 have received a copy of Mr. Cancelmi's 11 memorandum when you drafted the issue document? 12 MR. STEINBERG: Objection. Asked 13 and answered. 14 A. Again, I don't remember receiving 15 this memo. 16 MR. McDONOUGH: This memo being the 17 April 14th memo? 18 THE WITNESS: Yes. 19 MR. TORBORG: Why don't we take a 20 break, go to lunch. Let's go off the record. 21 THE VIDEOGRAPHER: Going off the 22 record at 12:22. 23 24 (Luncheon recess taken.) 25 -----</p>	<p style="text-align: right;">Page 137</p> <p>1 reallocation of these reserves in the Graduate 2 hospitals to the other Delaware Valley 3 Hospitals is not the most technically 4 appropriate resting place, however, since only 5 one audited set of financial statements will be 6 prepared at a consolidated AHERF level, the 7 precise placement of the reserves on the 8 individual hospital's financial statements 9 becomes less critical." 10 My question for you, Miss Heinlein, 11 is do you recall any discussion at any time 12 during the 1997 audit about the fact that there 13 would be only one set of consolidated financial 14 statements in context with the reserve 15 transfers? 16 A. Not in context with the reserve 17 transfers. I just knew there that there was 18 going to be one set of financials instead of 19 multiple perennity. 20 Q. So you don't recall any connection 21 between the two? 22 A. No. 23 Q. At any time during the 1997 audit, 24 do you recall ever hearing about Coopers 25 requesting AHERF to reverse the transfers?</p>

35 (Pages 134 to 137)

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<p style="text-align: right;">Page 138</p> <p>1 A. No.</p> <p>2 Q. Now, unlike some of the -- I want</p> <p>3 to -- sorry, flip back to 4297. That was your</p> <p>4 issue document.</p> <p>5 A. Okay.</p> <p>6 Q. Now, unlike some of the other</p> <p>7 documents we've seen today, this one is an</p> <p>8 issue topic document and not a work paper, is</p> <p>9 that right?</p> <p>10 A. Yes.</p> <p>11 Q. Is there a distinction between the</p> <p>12 two types of documents?</p> <p>13 A. Yes.</p> <p>14 Q. To the best of your understanding,</p> <p>15 what was the difference between an issue</p> <p>16 document and a regular work paper?</p> <p>17 A. Work paper normally included</p> <p>18 information that the client had given to the</p> <p>19 auditors and then, you know, we, as the</p> <p>20 auditors, put our tick marks on it or our</p> <p>21 follow-up questions. An issue was to bring</p> <p>22 attention to something that we had found when</p> <p>23 we were auditing our audit areas.</p> <p>24 Q. If I could ask you to flip out --</p> <p>25 get out Exhibit 4001. It was a document</p>	<p style="text-align: right;">Page 140</p> <p>1 Issue matter -- "Issues may be</p> <p>2 matters from the previous year that were</p> <p>3 appropriate to be readdressed in the current</p> <p>4 audit, risks identified during the client</p> <p>5 acceptance or continuance review, risks</p> <p>6 identified at the planning stage, exceptions</p> <p>7 arising from our work or other matters</p> <p>8 warranting further attention.</p> <p>9 "Critical matters are those issues</p> <p>10 deemed of such importance that they require</p> <p>11 partner clearance. This section outlines how</p> <p>12 we should consider documenting issues,</p> <p>13 including critical matters."</p> <p>14 Does my reading that language in</p> <p>15 the record refresh your recollection at all</p> <p>16 about whether you read this language before?</p> <p>17 A. No.</p> <p>18 Q. Does this comport with your</p> <p>19 recollection about what an issue was?</p> <p>20 A. Yes.</p> <p>21 Q. Under .4(a) under subsection under</p> <p>22 identification of issues, it states, "Members</p> <p>23 of the engagement team should identify issues</p> <p>24 as early as possible."</p> <p>25 Do you remember that being</p>
<p style="text-align: right;">Page 139</p> <p>1 produced earlier today that has a cover page</p> <p>2 that had the business assurance manual on it.</p> <p>3 The first page will be a black document.</p> <p>4 Again, Exhibit 4001 has a cover</p> <p>5 page, which is the cover page for the business</p> <p>6 assurance manual, assurance services, 1996</p> <p>7 edition, as well as a particular section within</p> <p>8 that manual, Section 620, Consideration of</p> <p>9 Documentation of Issues.</p> <p>10 Did you review this last time and</p> <p>11 tell me if you recall whether or not you</p> <p>12 remember this document?</p> <p>13 A. I remember the manual. I'm not</p> <p>14 specifically sure of Section 620.</p> <p>15 Q. Do you think you did look at it</p> <p>16 during the -- at all during the AHERF audit?</p> <p>17 A. I don't know.</p> <p>18 MR. STEINBERG: Section 620?</p> <p>19 MR. TORBORG: Section 620, yes.</p> <p>20 A. I don't know.</p> <p>21 Q. Section .3 on Bates 256 states, "An</p> <p>22 issue is a matter that we identify that is</p> <p>23 relevant and requires a response in the audit</p> <p>24 from either a technical project management or</p> <p>25 client's service or any other point of view."</p>	<p style="text-align: right;">Page 141</p> <p>1 something that was stressed during the AHERF</p> <p>2 audit, to identify issues as early as possible?</p> <p>3 A. Yes.</p> <p>4 Q. And then (c) stated, "Issues should</p> <p>5 be analyzed by the member of the engagement</p> <p>6 team with the appropriate experience, skills,</p> <p>7 and judgment who should be satisfied that the</p> <p>8 record of the issue is sufficient to identify</p> <p>9 the audit engagements."</p> <p>10 Do you recall that being something</p> <p>11 that was stressed during the audit of AHERF,</p> <p>12 1997 audit of AHERF?</p> <p>13 A. Yes.</p> <p>14 Q. Now, the issue document that we saw</p> <p>15 in Exhibit 4297, the 50 million reserve entry,</p> <p>16 the one created on June 9th -- June 9, 1997,</p> <p>17 you have typed -- you have typed it issue type,</p> <p>18 no further action required?</p> <p>19 A. Yes.</p> <p>20 Q. Do you recall that within the CLASS</p> <p>21 system you could identify an issue type?</p> <p>22 A. Yes, I could.</p> <p>23 Q. And do you know why you typed this</p> <p>24 no further action required?</p> <p>25 A. Yes, because I only used this issue</p>

36 (Pages 138 to 141)

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<p style="text-align: right;">Page 142</p> <p>1 as a place where I kept my notes throughout the 2 audit. 3 MR. STEINBERG: Are we done with 4 4001? 5 MR. TORBORG: Yes. 6 - - - - - 7 (Thereupon, Deposition Exhibit 4302 8 was marked for purposes of 9 identification.) 10 - - - - - 11 Q. For the record, what I've marked as 12 Exhibit 4302 is an issue topic titled 50 13 Million Reserve Entry. Again, this one has a 14 created by date of June 9th, 1997; but this one 15 has a last modified by date of August 13, 1997. 16 Right? 17 A. Yes. 18 Q. Have you had a chance to look 19 through this document or do you need a second? 20 A. I'm fine, go ahead. 21 Q. Do you recall this document? 22 A. Yes. 23 Q. Now, this one has some changes from 24 the previous version, correct? 25 A. Yes.</p>	<p style="text-align: right;">Page 144</p> <p>1 Robin Schaffer, C&L notes that a total of 50 2 million was intercompany from the Graduate 3 hospitals to the Delaware Valley Hospitals to 4 help, quote, support, unquote these entities 5 due to bad debt reserve shortfalls." 6 In the earlier version of this work 7 paper, you didn't have the language "to help 8 support," right? 9 A. Yes. 10 Q. Do you know why you added that 11 language? 12 A. No. 13 Q. Do you know what you meant when you 14 said "to support"? 15 A. I don't know what I thought at that 16 time. 17 Q. Do you know why you put it in 18 quotes? 19 A. No. 20 Q. Based on your practices at the 21 time, would that be, putting in quotes, would 22 that be something intended to suggest sarcasm? 23 MR. STEINBERG: Objection. Vague, 24 lack of foundation and calls for speculation. 25 A. I have no idea why I put that in</p>
<p style="text-align: right;">Page 143</p> <p>1 Q. One of the changes was that the 2 issue type was changed from no further action 3 required to audit implications? 4 A. Yes. 5 Q. Do you know why that was changed? 6 MR. STEINBERG: You're comparing to 7 4297? 8 MR. TORBORG: Yes. 9 A. I don't know, I changed it. I 10 don't know why. 11 Q. What did the term audit 12 implications mean? 13 A. Something that would impact the 14 audit and needed to be looked at by someone 15 higher than myself. 16 Q. In addition, this version of the 17 work paper, the journal entries that are listed 18 on Exhibit 4297, the earlier version of the 19 issue document, the journal entries are not on 20 this version? 21 A. Correct. 22 Q. Do you know why not? 23 A. I'm not sure why I deleted them. 24 Q. And then in this version, the issue 25 description, you have, "Per conversation with</p>	<p style="text-align: right;">Page 145</p> <p>1 quotations. 2 Q. I'm asking based on your practice 3 of when you drafted work papers or issue 4 topics, if you put something in quotes, like 5 you put in "to help support," would that be 6 something that based on your practice would 7 indicate hinting at sarcasm? 8 A. No. 9 MR. STEINBERG: Same objection. 10 Q. For the record, I've shown the 11 witness or asked the witness to review Exhibit 12 4260, which is an April 7th, 1997 interoffice 13 correspondence from Christa Porter to the AHERF 14 engagement team that is a three-page document. 15 Miss Heinlein is shown on the distribution on 16 the third page of the document. 17 Miss Heinlein, if you would take a 18 look at that to the extent you think it's 19 necessary to tell me whether or not you recall 20 it, then I'll ask some specific questions. 21 A. Yes, I recall it. 22 Q. You do recall the document? 23 A. Yes. 24 Q. The fourth bullet on the second 25 page Bates ending 220 -- let me first read the</p>

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<p style="text-align: right;">Page 146</p> <p>1 first paragraph of that page. It says, "The 2 following is a list of CLASS tips for the AHERF 3 engagements. This list was generated from 4 prior experience in CLASS best practices. 5 "If you have any suggestions for 6 additional points or criticisms for those made, 7 please let me know." 8 Then the fourth bullet down reads, 9 "Prior to including an issue in the audit file, 10 the issue must be discussed with a senior 11 assigned to review the audit area for 12 concurrence." 13 Miss Heinlein, do you recall that 14 there was a guideline to discuss the creation 15 of an issue with a senior prior to including it 16 in the audit file? 17 MR. STEINBERG: Objection. Vague. 18 Sorry. 19 A. I don't remember, no. 20 Q. Do you recall whether it was your 21 practice to discuss issue documents with a 22 senior before putting it in the audit file? 23 A. No. 24 Q. Five bullets down from that is a 25 bullet that says, "A replication schedule will</p>	<p style="text-align: right;">Page 148</p> <p>1 with anyone else. I think you said you don't 2 recall today if you did. 3 A. Correct. 4 Q. Based on your practices at the 5 time, would you have created an issue document 6 relating to the 50 million dollar transfers 7 without discussing it with someone above you? 8 MR. STEINBERG: Objection. Vague. 9 Lack of foundation. Calls for speculation. 10 A. Quite possibly, yes. 11 Q. Quite possibly you may have done 12 that? 13 A. Yes. 14 Q. Why do you say that? 15 A. If I couldn't find my senior, if 16 the person wasn't there for the day, I would 17 create an issue and then eventually follow up 18 with the person. 19 4303 marked. 20 Q. For the record, what we've marked 21 as Exhibit 4303 is a work paper for the 1996 22 audit, working paper name, 50 million dollar 23 reserve; 50 million dollar bad debt reserve 24 entry. The working paper reference number 25 0053-75. Completed by Kristen Heinlein on</p>
<p style="text-align: right;">Page 147</p> <p>1 be developed for both prelim and year-end field 2 work. Please stick to the replication 3 schedule. This is important due to the size of 4 the engagement team." 5 Do you have an understanding of 6 what that means? 7 A. Yes. 8 Q. What is your understanding? 9 A. There was a main database held on a 10 server, so everybody who had done work on this 11 database needed to transfer the information 12 from that day to the overall database on the 13 server, so we would replicate our databases. 14 Q. Every member of the audit team 15 would replicate the databases? 16 A. Yes. 17 Q. To the best of your knowledge? 18 A. Yes. 19 Q. To the best of your knowledge, did 20 people stick with the replication schedule? 21 A. I don't remember. 22 Q. I asked you earlier if you recalled 23 whether or not you discussed -- when you first 24 created the issue document related to the 50 25 million, Exhibit 4297, whether you discussed it</p>	<p style="text-align: right;">Page 149</p> <p>1 September 15th, 1997. Last modified by Christa 2 Porter on September 22nd of '97. 3 Miss Heinlein, if you could let me 4 know when you've had a chance to look at that. 5 A. I'm fine, go ahead. 6 Q. Do you recall this document? 7 A. Yes. 8 Q. Now, this one is unlike the -- let 9 me strike that. 10 This document has some of the 11 same -- or has the same language as some 12 portion of the intermediate version of the 13 issue -- of the second version of the issue 14 document on the 50 million, right? 15 MR. STEINBERG: You're talking 16 about 4302? 17 MR. TORBORG: Yes. Thank you. 18 A. Yes. 19 Q. Do you recall cutting and pasting 20 language from your issue document and putting 21 it into a work paper? 22 A. Yes. 23 Q. Do you recall why you did that? 24 A. Christa Porter asked me to put my 25 information from the issue into a work paper.</p>

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<p style="text-align: right;">Page 150</p> <p>1 Q. Did she -- do you recall when she 2 made that request? 3 A. During our year-end field work. 4 Q. Did she tell you why she wanted you 5 to do that? 6 A. I don't remember if she did. 7 Q. Do you recall if you hard deleted 8 your -- well, let me strike that and try to get 9 a little bit more background in. 10 A. Okay. 11 Q. Do you recall that on the CLASS 12 system you could mark items for deletion? 13 A. Yes. 14 Q. But that was different than taking 15 it off the database altogether, right? 16 A. Yes. 17 Q. The difference between a hard 18 delete, so to speak, which would be taking off 19 the system? 20 A. Yes. 21 Q. Is that the terminology you're 22 familiar with? 23 A. Yes. 24 Q. Versus just marking it for 25 deletion, right?</p>	<p style="text-align: right;">Page 152</p> <p>1 A. Yes. 2 Q. Right? 3 And your recollection of that 4 meeting today was that it occurred in -- 5 sometime in August? 6 A. Yes. 7 Q. I don't recall if you told me this 8 yet, but did Miss Frazier ask you to do 9 anything in that meeting with respect to the 50 10 million? 11 A. I'm not sure if she gave me a 12 specific direction or not. 13 Q. Do you recall her asking you to do 14 some research with respect to the 50 million? 15 A. Through the course of the audit, 16 yes. I'm not sure specifically that day. 17 Q. At the time that Miss Porter told 18 you to put the content of your issue document 19 into the work -- into a work paper, do you 20 recall if that was before or after the meeting 21 you had with Amy Frazier and Christa Porter 22 that you remember? 23 MR. STEINBERG: I'm sorry, I missed 24 the question. Would you mind reading that back 25 for me, please?</p>
<p style="text-align: right;">Page 151</p> <p>1 A. Yes. 2 Q. Do you recall whether you hard 3 deleted the issue document on the 50 million 4 dollar reserve entry? 5 A. I know now I hard deleted it. I 6 don't remember marking it for deletion or hard 7 deleting it at the time. 8 Q. So I take it you don't recall why 9 you hard deleted it? 10 A. No. 11 Q. Do you have any recollection as you 12 sit here today on the amount of time that 13 elapsed between when you first created an issue 14 document related to the 50 million and when you 15 were told to put it into a work paper? 16 A. Do I know now? From looking at the 17 dates of creation, I know it was in a span of 18 three or -- three months. 19 Q. I'm asking for your recollection. 20 A. No. 21 Q. No? Okay. 22 I think you -- we talked earlier 23 about a meeting that you recalled with Miss 24 Frazier and Miss Porter with respect to the 50 25 million?</p>	<p style="text-align: right;">Page 153</p> <p>1 (Record read.) 2 MR. STEINBERG: Thank you. 3 A. It was after my meeting with 4 Christa, yes. 5 - - - - - 6 (Thereupon, Deposition Exhibit 4304 7 was marked for purposes of 8 identification.) 9 - - - - - 10 Q. For the record, what I've shown 11 Miss Heinlein, or what I've handed Miss 12 Heinlein as Exhibit 4304 is an audit step work 13 paper for the 1997 audit for the file section 14 name patient accounts receivable; step name, 15 examine adjustments made throughout the year, 16 completed by Kristen Heinlein on August 26th, 17 1997, and last modified by Christa Porter on 18 September 10, 1997. 19 Miss Heinlein -- and also I've 20 attached, again, what I call metadata 21 information, the remaining portion of this 22 document. 23 My first question -- after you've 24 had a chance to read just the first page -- is 25 whether or not you recall the first page.</p>

39 (Pages 150 to 153)

Kristen Heinlein, CPA

<p style="text-align: right;">Page 154</p> <p>1 A. During the audit, no. I've seen it</p> <p>2 obviously since during testimony.</p> <p>3 Q. You've seen it in testimony with</p> <p>4 the SEC?</p> <p>5 A. Yes.</p> <p>6 Q. Under this -- this debt description</p> <p>7 says, "Examine support for significant, unusual</p> <p>8 or nonrecurring adjustments made throughout the</p> <p>9 year by the client in reconciling detailed</p> <p>10 patient -- patients receivable records with</p> <p>11 control accounts in the general ledger."</p> <p>12 Under the step comments, it was</p> <p>13 written, "C&L notes that no unusual or</p> <p>14 nonrecurring adjustments were made in</p> <p>15 reconciling A/R to the general ledger."</p> <p>16 Do you recall if you drafted this</p> <p>17 language in the step comments?</p> <p>18 A. I don't remember.</p> <p>19 Q. Do you recall whether you ever</p> <p>20 considered whether or not the 50 million of the</p> <p>21 reserve transfer should be listed in this step</p> <p>22 comment that -- under the step description</p> <p>23 asking to examine support for significant or</p> <p>24 nonrecurring adjustments made throughout the</p> <p>25 year by the client?</p>	<p style="text-align: right;">Page 156</p> <p>1 date of May 29, 1997, right?</p> <p>2 A. Yes.</p> <p>3 Q. Now, this -- now, did you notice</p> <p>4 any difference between this document and the</p> <p>5 last one?</p> <p>6 MR. STEINBERG: 4304.</p> <p>7 MR. TORBORG: Yes.</p> <p>8 MR. STEINBERG: 4305.</p> <p>9 A. The information in the step</p> <p>10 comments is different.</p> <p>11 Q. This one, the step comments says 50</p> <p>12 million dollar hyphen Graduate bad debt, right?</p> <p>13 A. Yes.</p> <p>14 Q. You don't recall whether you</p> <p>15 drafted that?</p> <p>16 A. I think I drafted that.</p> <p>17 Q. Why do you think you drafted that?</p> <p>18 A. I don't know, just my recollection.</p> <p>19 Q. Do you know why there was a change</p> <p>20 from an earlier version of this same audit step</p> <p>21 that provided 50 million Graduate bad debt</p> <p>22 under this step description to the final one</p> <p>23 that we looked at in Exhibit 4304?</p> <p>24 A. No, I don't.</p> <p>25 Q. Do you recall who made the change?</p>
<p style="text-align: right;">Page 155</p> <p>1 A. Not that I remember.</p> <p>2 - - - - -</p> <p>3 (Thereupon, Deposition Exhibit 4305</p> <p>4 was marked for purposes of</p> <p>5 identification.)</p> <p>6 - - - - -</p> <p>7 Q. For the record, what I've handed</p> <p>8 the witness as 4305 is a similar audit step</p> <p>9 work paper, this one from an earlier version of</p> <p>10 the CLASS database, again, as Mr. McDonough</p> <p>11 explained earlier on the record, there were</p> <p>12 some prior versions of the CLASS system that</p> <p>13 weren't replicated, so they were still out</p> <p>14 there and never produced to us, as well as what</p> <p>15 I call metadata information beyond the first</p> <p>16 page.</p> <p>17 A. Okay.</p> <p>18 Q. Do you recall -- have you had a</p> <p>19 chance to look at this document?</p> <p>20 A. Yes.</p> <p>21 Q. Do you recall this version of the</p> <p>22 document?</p> <p>23 A. No.</p> <p>24 Q. Now, this one was -- does not have</p> <p>25 a completed by date but has a last modified by</p>	<p style="text-align: right;">Page 157</p> <p>1 A. No.</p> <p>2 Q. Would it be fair to say -- let me</p> <p>3 ask you this. Do you know what the 50 million</p> <p>4 dash Graduate bad debt refers to?</p> <p>5 A. Yes.</p> <p>6 Q. What does it refer to?</p> <p>7 A. There was 50 million dollars on</p> <p>8 Graduate's opening balance sheet, I guess to --</p> <p>9 fortunately I need to use my words in the</p> <p>10 document -- to help support the Delaware Valley</p> <p>11 entities.</p> <p>12 Q. For the record, I've handed the</p> <p>13 witness what we've marked previously as Exhibit</p> <p>14 4258. It is a document printed off of the</p> <p>15 Meyer version of the CLASS disk again, this one</p> <p>16 with a working paper name Hahnemann T/V review,</p> <p>17 as well as what I call metadata information</p> <p>18 from the fourth page of the exhibit to the</p> <p>19 remainder of the exhibit.</p> <p>20 Miss Heinlein, I'm going to ask</p> <p>21 you, if you would, to please just review the</p> <p>22 first three pages of the document.</p> <p>23 A. Okay.</p> <p>24 Q. Do you recall this specific</p> <p>25 document at all?</p>

40 (Pages 154 to 157)

Kristen Heinlein, CPA

<p style="text-align: right;">Page 158</p> <p>1 A. No.</p> <p>2 Q. Do you recall -- whether or not you</p> <p>3 recall this document at all -- reviews that</p> <p>4 someone may have done of preliminary trial</p> <p>5 balances?</p> <p>6 A. Yes.</p> <p>7 Q. What do you recall about this?</p> <p>8 A. I know Christa Porter and Tony</p> <p>9 Carrabba were doing reviews of the opening</p> <p>10 balances for Graduate.</p> <p>11 Q. Now, this particular document, all</p> <p>12 of the language is in lower case letters,</p> <p>13 right?</p> <p>14 A. Yes.</p> <p>15 Q. And there's no punctuation at the</p> <p>16 end of any of these questions typically, right?</p> <p>17 A. Yes.</p> <p>18 Q. Given that style, do you recall</p> <p>19 anyone on the AHERF audit team that wrote in</p> <p>20 that style?</p> <p>21 A. No.</p> <p>22 Q. If I could ask you to flip back to</p> <p>23 Exhibit 4296. I believe it's the first of the</p> <p>24 3-31 bad debt reserve calculation with the</p> <p>25 roll-forward schedules. I may have my number</p>	<p style="text-align: right;">Page 160</p> <p>1 Q. Those were provided by the client?</p> <p>2 A. Yes.</p> <p>3 Q. Right?</p> <p>4 Do you recall the language "FY</p> <p>5 revenue adjustment" at all?</p> <p>6 A. No.</p> <p>7 Q. Sitting here today, do you have an</p> <p>8 understanding of what that is?</p> <p>9 A. No.</p> <p>10 Q. If I ask you about similar FY '97</p> <p>11 revenue adjustments on other entities'</p> <p>12 roll-forward schedules, would your answer be</p> <p>13 the same?</p> <p>14 A. Yes.</p> <p>15 Q. Based on your practices at the</p> <p>16 time, is that something that you would have</p> <p>17 attempted to investigate?</p> <p>18 MR. STEINBERG: Objection. Vague,</p> <p>19 lack of foundation. Calls for speculation.</p> <p>20 A. I don't know.</p> <p>21 MR. TORBORG: Mr. Steinberg, I</p> <p>22 think -- I don't really mind too much the</p> <p>23 objection, but the calls for speculation,</p> <p>24 that's an objection that's preserved by the</p> <p>25 case management order. So if you want, you can</p>
<p style="text-align: right;">Page 159</p> <p>1 wrong, and I apologize if I do.</p> <p>2 4292. I'm sorry. Am I off.</p> <p>3 Again, if you would flip with me</p> <p>4 about nine pages back into the document and</p> <p>5 attempt to find the inpatient and outpatient</p> <p>6 roll-forward schedules that we talked about</p> <p>7 earlier.</p> <p>8 A. No.</p> <p>9 Q. All right?</p> <p>10 If you go to the outpatient</p> <p>11 schedule, the one that has some notes on it.</p> <p>12 A. Okay.</p> <p>13 Q. Let me ask you first, the footnotes</p> <p>14 under B, C, D and E on that page.</p> <p>15 A. Yes.</p> <p>16 Q. Are those footnotes that you</p> <p>17 drafted?</p> <p>18 A. Yes.</p> <p>19 Q. And the notes that are on the top</p> <p>20 of that in a different font, it says -- the</p> <p>21 first one says, "Notes, A/R balance as of</p> <p>22 9-30-96 does not include FY '97 revenue</p> <p>23 adjustment, 200,000." You didn't write those</p> <p>24 notes, right?</p> <p>25 A. No.</p>	<p style="text-align: right;">Page 161</p> <p>1 just say object to form, it's covered. You</p> <p>2 don't have to say calls for speculation and all</p> <p>3 that. You can just say object to form. That's</p> <p>4 fine. The speculation objection is preserved.</p> <p>5 MR. STEINBERG: I just want to make</p> <p>6 the basis of the objection to the form of the</p> <p>7 question clear.</p> <p>8 MR. TORBORG: I'll let you know if</p> <p>9 I want to know the basis, okay?</p> <p>10 MR. STEINBERG: I want the record</p> <p>11 to be clear for the basis for my objection to</p> <p>12 form as well.</p> <p>13 MR. TORBORG: All you need to say</p> <p>14 is object. There's a case management in</p> <p>15 this -- order in this case that generally says</p> <p>16 just to keep your objection to object to form.</p> <p>17 MR. McDONOUGH: Okay, let's move</p> <p>18 on, please. You know, we always have our</p> <p>19 longest discussions when we try to minimize</p> <p>20 comments.</p> <p>21 MR. TORBORG: Okay. Well, I'll</p> <p>22 move on, but --</p> <p>23 MR. McDONOUGH: I take your point.</p> <p>24 Just let's move on. Thanks.</p> <p>25 BY MR. TORBORG:</p>

41 (Pages 158 to 161)

Kristen Heinlein, CPA

<p style="text-align: right;">Page 162</p> <p>1 Q. On footnote D, I asked you already 2 about the first sentence in that one. 3 The second sentence you wrote, 4 "Monthly bad debt expense agrees to the I/S 5 without exception." 6 And what does that note mean? 7 A. The monthly bad debt expense agrees 8 with the income statement without exception. 9 Q. Do you recall whether that was 10 something that you attempted to do, to tie the 11 bad debt expense -- or the figures in I guess 12 the row -- the column that has the E at the 13 bottom of it with the general ledger? 14 A. It appears so. 15 Q. Do you know why you were doing 16 that? 17 A. Not as I sit here today. 18 Q. Do you recall if that was a 19 standard audit step in reviewing the 20 roll-forwards? 21 A. Probably was, yes. 22 - - - - - 23 (Thereupon, Deposition Exhibits 24 4306 through 4310 were marked for 25 purposes of identification.)</p>	<p style="text-align: right;">Page 164</p> <p>1 A. I think I received them on disk. 2 Q. Do you recall any discussions 3 coincident with you receiving these schedules? 4 A. Not that I remember. 5 Q. Do you recall any discussions with 6 anyone at AHERF with respect to these schedules 7 at all? 8 A. I think I followed up with some 9 questions with Robin. 10 Q. Do you recall generally what those 11 questions were? 12 A. Not at this time. 13 Q. I have some questions for you on 14 these schedules, but I think to make it a 15 little bit easier, I'm going to use this -- can 16 you guys share that one? 17 MR. STEINBERG: Sure. 18 Q. This one has Bates numbering on it. 19 It makes it a little bit easier to use it. 20 All right. Miss Heinlein, it's my 21 understanding what I've handed you, Exhibit 22 4248, is a collection of some of the accounts 23 receivable related work papers for the 1997 24 audit. 25 If I could ask you to turn, please,</p>
<p style="text-align: right;">Page 163</p> <p>1 - - - - - 2 Q. For the record, what I've marked as 3 4306 through 4310 are documents I printed off a 4 different version of a prior version of the 5 CLASS system, this one from a gentleman named 6 HIPKISS. And the Bates numbering at the bottom 7 of each of these documents is intended to 8 reflect that. 9 Miss Heinlein, take as much time as 10 you need to answer my question, but I think you 11 probably already know the answer to my 12 question. Other than the metadata information 13 I've attached to the back of each of these 14 schedules, do you recall these schedules? 15 A. Yes. 16 Q. Do you recall when you received 17 those schedules? 18 A. During our year-end audit 19 procedures. 20 Q. Do you recall from whom you 21 received them? 22 A. It was either Robin or one of 23 Robin's staff. 24 Q. Do you recall if you received them 25 on a disk or if you received hard copies?</p>	<p style="text-align: right;">Page 165</p> <p>1 to the Bates page ending 10279. 2 A. 102.79? 3 Q. 10279, PWC 10279. 4 A. I'm sorry. 5 Okay. 6 Q. Does this document appear to be a 7 bad debt reserve calculation and roll-forward 8 schedule for the Hahnemann University Hospital 9 for 6-30-97? 10 A. Yes. 11 Q. If I could ask you to turn to the 12 second and last -- second to last and last page 13 of this exhibit. It has the Bates number 14 PWC010290.L and .M. These were blown-up 15 schedules so we can read them a little easier. 16 Do you recall this schedule -- 17 A. Yes. 18 Q. -- these two schedules? 19 A. Yes. 20 Q. Now, on the 3-31 version of the 21 roll-forwards, if you remember them, do you 22 recall that the -- well, let me strike that. 23 Sorry. 24 If we go to the bottom of page 25 290.0, there is a footnote E. It says transfer</p>

42 (Pages 162 to 165)

Kristen Heinlein, CPA

<p style="text-align: right;">Page 166</p> <p>1 of reserves from Graduate that relates to 5 2 million dollar credit entries in March and 3 April, right? 4 A. Yes. 5 Q. In the "other" column? 6 A. Yes. 7 Q. Now, in the -- on the 3-31-97 8 versions of these schedules, we saw that the 9 amount transferred from Graduate was in the 10 column that had the monthly bad debt expense, 11 right? 12 A. Yes. 13 Q. Do you know why for the 6-30-97 14 version of the schedule these amounts have been 15 broken out into an "other" column? 16 A. No. 17 MR. STEINBERG: Which document were 18 you referring to in your question? 19 MR. TORBORG: 3-31-97 roll-forward 20 schedules. 21 MR. McDONOUGH: Wasn't that 22 something -- 23 MR. TORBORG: 4292. 24 MR. McDONOUGH: -- that was headed 25 under the trial balance column?</p>	<p style="text-align: right;">Page 168</p> <p>1 MR. STEINBERG: Is that Exhibit 2 4248? 3 MR. TORBORG: Yes. 4 A. Okay. 5 Q. If you go to the roll-forward 6 schedule for Bucks County inpatient accounts, 7 there's a column for bad debt provision. Do 8 you see that? 9 A. Yes, on 4292? 10 Q. I'm asking you to look at -- 11 A. I'm sorry. 12 Q. -- the Bates ending 266K. 13 A. Okay. Yes. 14 Q. Do you see the bad debt provision? 15 A. Yes. 16 Q. For the month of July, in the 17 amount of 122,478? 18 A. Yes. 19 Q. Month of August, 175,794. 20 Do you see that that matches the 21 amounts that are, for those two months, at 22 least, in the column ATB on the -- on Exhibit 23 4292? 24 A. Yes. 25 Q. Are you comfortable now assuming</p>
<p style="text-align: right;">Page 167</p> <p>1 MR. STEINBERG: That was my 2 recollection, too. 3 A. It was under ATB. 4 Q. Your understanding of what was 5 under the ATB column was meant to be under the 6 bad debt provision column? 7 MR. McDONOUGH: Is that a question? 8 MR. TORBORG: Yes. 9 A. I don't know. 10 Q. Let me go to -- if we can get out 11 Exhibit 4292. Actually, let me do it a 12 different way if you don't mind. 13 Go to -- if you can keep one finger 14 on Exhibit 010255. 15 MR. McDONOUGH: Keep one finger on 16 what? 17 Q. Why don't we go to Exhibit 4292. 18 That's the 3-31-97 roll-forward schedule for 19 Bucks. 20 As we noted earlier, there's some 21 amounts underneath the ATB column, right? 22 A. Yes. 23 Q. Now, if you would flip with me, 24 please, to the larger exhibit, 4248, to the 25 Bates page ending 266K.</p>	<p style="text-align: right;">Page 169</p> <p>1 that what's in the ATB column really was the 2 bad debt provision column? 3 MR. STEINBERG: Object to form. 4 MR. McDONOUGH: Object to form. 5 A. I don't know. 6 Q. If we go back to 290.L on the large 7 Exhibit 4248. Have that in one hand. And then 8 I'm going to ask you to pull out Exhibit 4294. 9 And then if you would kindly find 10 for me the bad debt roll-forward portion on 11 that schedule, probably about ten pages back. 12 Did you do it? Do you have it? 13 A. M-hm. 14 Q. You saw it coming, huh? 15 A. I did. 16 Q. Look at note C on Exhibit 4294. 17 A. Okay. 18 Q. There's a note C next to the March 19 amount of a credit amount of \$5,521,000 -- 20 \$521,015, do you see that? 21 A. Yes. 22 Q. The note C states -- represents the 23 monthly entry to bad debt expense, paren, AHERF 24 was booking to budget, end paren, plus the 25 entry of 5 million dollars from the Graduate</p>

43 (Pages 166 to 169)

Kristen Heinlein, CPA

<p style="text-align: right;">Page 170</p> <p>1 hospitals, paren, refer to issue, and then 2 monthly bad debt agrees to the I/S without 3 exception, right? 4 A. Yes. 5 Q. Now, if we go back to, in Exhibit 6 4248, Bates page ending 290.L, there is no 7 similar tick mark or footnote indicating that 8 the amount of bad debt expense has been tied to 9 the general ledger. Right? 10 A. Yes. 11 Q. Do you know why that is? 12 A. No. 13 Q. Staying with that page, 290, in the 14 other column for the month of June, on the 15 inpatient schedule, there is a credit amount of 16 \$691,047, right? 17 A. Yes. 18 Q. The footnote F that states bad debt 19 shortfall adjustments, right? 20 A. Yes. 21 Q. That was a footnote that was 22 drafted with a client? 23 A. Yes. 24 Q. Do you recall that footnote? 25 A. No.</p>	<p style="text-align: right;">Page 172</p> <p>1 that you would have understood back in 1997 2 when you were doing the audit? 3 MR. McDONOUGH: What, that the 4 credit increases the net reserve? 5 MR. TORBORG: Yes. 6 MR. McDONOUGH: Okay. 7 MR. STEINBERG: Object to form. 8 A. I would think so. 9 Q. And, again, this has a footnote 10 that says bad debt shortfall adjustments, 11 right? 12 A. Yes. 13 Q. Do you recall anything about that 14 footnote? 15 A. No. 16 Q. Based on your practices at the 17 time, given the magnitude of that credit entry, 18 do you believe that's something that you would 19 have investigated? 20 MR. STEINBERG: Object to form. 21 A. I don't know. 22 Q. Do you know why I'm asking about 23 these as you sit here today? 24 A. As I sit here today, yes. 25 Q. Why do you think I'm asking you</p>
<p style="text-align: right;">Page 171</p> <p>1 Q. Do you recall if you knew what a 2 bad debt shortfall adjustment was? 3 A. No. 4 Q. Based on your practices at the 5 time, would you have attempted to determine 6 what it was? 7 MR. STEINBERG: Objection to form. 8 A. I don't know. 9 Q. If we go to the second -- the page 10 after that, .M. There is a -- in the June row 11 "other" column, a \$10,638,000 entry, credit 12 entry, right? 13 A. Yes. 14 Q. Footnote D. 15 Does it appear as you look at this 16 schedule that that credit entry served to 17 increase the amount of bad debt reserves in the 18 outpatient reserve account, bad debt reserve 19 account at Hahnemann? 20 MR. STEINBERG: Based on looking at 21 the document now? 22 MR. TORBORG: Yes. 23 MR. STEINBERG: Object to form. 24 A. It looks like it does, yes. 25 Q. Do you believe that's something</p>	<p style="text-align: right;">Page 173</p> <p>1 about them? 2 A. There were additional reserves on 3 AHERF's books. 4 Q. Would those be additional reserves 5 transferred from the Graduate entities to the 6 Delaware Valley entities over and above the 50 7 million? 8 A. Yes, that's my understanding. 9 MR. McDONOUGH: As you sit here -- 10 MR. TORBORG: Yes. 11 A. As I sit here today. 12 Q. Do you believe the phraseology bad 13 debt shortfall adjustments was intended to hide 14 the additional transfers from Coopers & 15 Lybrand? 16 A. I don't know. 17 Q. Do you feel deceived as you sit 18 here today? 19 A. No. 20 MR. McDONOUGH: Object to form. 21 Q. Now, I could go through and ask you 22 about similar different amounts about different 23 credit entries on the other four -- other four 24 DVOG hospitals. Would your answer be the same 25 with respect to those --</p>

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Kristen Heinlein, CPA

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1 A. Yes.
 2 Q. -- your recollection?
 3 MR. McDONOUGH: Assuming the
 4 entries are the same?
 5 MR. TORBORG: Yes.
 6 MR. McDONOUGH: Yes.
 7 MR. TORBORG: Assuming the entries
 8 are the same, that's a good point, because
 9 they're not exactly the same.
 10 MR. STEINBERG: I'm sorry, just for
 11 clarification, are there categories of credit
 12 entries you're talking about or -- I mean, I
 13 don't want to make you go through everything,
 14 but I'm not sure I know which credits you're
 15 talking about. If the witness knows what
 16 you're talking about, that's fine, but I'm not
 17 sure I do.
 18 Q. Do you know what I'm talking about?
 19 A. Yes.
 20 Q. Do we need to go through the
 21 process?
 22 A. No.
 23 Q. If I could ask you to flip in
 24 Exhibit 4248 to Bates page ending 151.
 25 A. Which document is that?

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1 Q. It's the large one, the one that
 2 you have in your hand, PWC Bates number.
 3 MR. McDONOUGH: The thick one
 4 there.
 5 A. I'm sorry, can I have the Bates
 6 number again?
 7 Q. To make your life a little easier,
 8 you can take all of those other documents but
 9 that one off your plate for awhile. We'll stay
 10 with that one for awhile.
 11 A. Okay.
 12 Can I have the Bates number again,
 13 please?
 14 MR. STEINBERG: 10 --
 15 Q. 161.
 16 MR. STEINBERG: Sorry.
 17 Q. 261. You're right.
 18 For the record, I've directed Miss
 19 Heinlein's attention to a work paper titled bad
 20 debt expense analysis for the 1997 audit,
 21 working paper reference number 0053-64.
 22 And then, Miss Heinlein, I would
 23 invite you to save your eyes and look at the
 24 Bates page ending .A and skip over the second
 25 page. .A is an enlargement of the second page.

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1 MR. McDONOUGH: So we're at 261?
 2 MR. TORBORG: And 62.A.
 3 MR. McDONOUGH: And 62.
 4 MR. TORBORG: I'm sorry, 161 and
 5 162.A. Sorry.
 6 MR. McDONOUGH: That's all right.
 7 MR. TORBORG: I'll let you --
 8 I really apologize. I actually had
 9 more copies of this document that I can give
 10 you guys. I'm sorry, I did request extra
 11 copies of this exhibit.
 12 Q. Miss Heinlein --
 13 MR. TORBORG: Is everyone caught
 14 up?
 15 Q. Miss Heinlein, have you had an
 16 opportunity to review the schedule on 162.A?
 17 A. Yes.
 18 Q. Now, this is titled bad debt
 19 expense analysis, 6-30-96.
 20 Do you think that's a typo? It
 21 probably should be 6-30-97?
 22 A. Yes.
 23 Q. Do you recall this schedule at all?
 24 A. Yes.
 25 Q. Did you create this schedule?

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1 A. Yes.
 2 Q. What occasioned you to create this
 3 schedule?
 4 A. During the year-end field work I
 5 created this schedule.
 6 Q. Do you recall whether this was a
 7 schedule that Miss Frazier and/or Miss Porter
 8 specifically asked you to create?
 9 A. I don't know. I would assume so
 10 because this is a summary of the bad debt
 11 roll-forwards.
 12 Q. Now, you said this was a summary of
 13 the bad debt roll-forwards. What did you mean
 14 by that?
 15 A. It just pulls out certain
 16 information from the roll-forwards, if I'm not
 17 mistaken, and contractual allowance schedules.
 18 I think this was an accumulation of a number of
 19 schedules to be put in one place.
 20 Q. Does it appear, among other things,
 21 that this schedule is attempting to quantify
 22 the amount of bad debt expense as a percentage
 23 of net patient service revenue for the fiscal
 24 years 1996 and 1997?
 25 A. Yes. For 1997 for sure. For 1996

45 (Pages 174 to 177)

Kristen Heinlein, CPA

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1 I think I just used that as a comparison.

2 Q. Now, you said I used it as a
3 comparison. Were you looking at these figures
4 and attempting to draw any conclusions?

5 A. No.

6 Q. Do you know if anyone was?

7 A. That would be an assumption, so I'm
8 not sure.

9 Q. Do you recall having any
10 discussions with anyone else at Coopers about
11 this schedule?

12 A. No.

13 Q. I have shown the witness what we've
14 marked previously as Exhibit 4254, which is a
15 document that I printed off a floppy disk
16 produced to us in CD ROM format, and the disk
17 numbered by PricewaterhouseCoopers and the file
18 number are reflected in the Bates stamped
19 number.

20 Miss Heinlein, does this document
21 that I've shown you, Exhibit 4254, appear to be
22 a different version of the bad debt expense
23 analysis schedule that we see in Exhibit 4248
24 at Bates ending 162A?

25 A. Yes.

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1 Q. Now, if you would look with me
2 under the Hahnemann column, the first column
3 there, the 6-30-97 column, under O/P bad debt
4 expense, first of all, do you recall where it
5 was that you got these figures?

6 A. No.

7 Q. Would you have -- do you believe
8 you would have gotten them from the general
9 ledger?

10 A. I don't know.

11 Q. In any event, there's a credit
12 entry there of \$4,469,295, right?

13 A. I'm sorry, I don't see where you
14 are.

15 Q. I'm sorry, I'm with the row O/P bad
16 debt expense. Sorry, I don't think I directed
17 you to that first. I apologize.

18 MR. McDONOUGH: You're actually on
19 the --

20 A. Okay.

21 MR. McDONOUGH: I think you're on a
22 prior exhibit, too, aren't you?

23 THE WITNESS: Yes, he is.

24 MR. McDONOUGH: You're on 162.A.
25 Not 4254.

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1 Q. I'm going to ask you to compare the
2 two, so it doesn't really matter what you do
3 first.

4 Under Exhibit 4254, the credit
5 amount is \$3,469,295. Whereas on Exhibit 4248
6 at Bates ending 162.A, the amount is exactly
7 one million dollars difference, right?

8 A. Yes.

9 Q. Do you know why there's a one
10 million dollar difference between the two?

11 A. No.

12 Q. If there were other differences on
13 Exhibit 4254 and Bates page ending 162A of
14 4248, would you know why there were any
15 differences in other amounts?

16 A. No.

17 Q. Do you know if you were the person
18 who created Exhibit 4254?

19 A. I think I did.

20 Q. Do you recall whether or not anyone
21 else from the audit team asked you to compare
22 or compare data, benchmarking data from which
23 you could compare the bad debt expense
24 percentage of total net patient service revenue
25 from industry data and what would be reflected

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1 on the schedule, 4248?

2 A. Not that I remember.

3 Q. Do you recall being asked to
4 collect any industry data at all with respect
5 to accounts receivable for the '97 audit?

6 A. No.

7 - - - - -
8 (Thereupon, Deposition Exhibit 4311
9 was marked for purposes of
10 identification.)
11 - - - - -

12 Q. For the record, what I've marked as
13 Exhibit 4311 is a document printed off another
14 one of the floppy disks produced to us by
15 PricewaterhouseCoopers in August of 2003. This
16 one has a title, St. Christopher's Hospital for
17 Children Analysis of Allowance for Bad Debt,
18 June 30, 1997.

19 And then it contains just some
20 schedules behind it that show from what
21 particular file I got it off the CD ROM.

22 Miss Heinlein, if you would take a
23 look at that document.

24 A. Okay.

25 Q. Miss Heinlein, do you -- also I

46 (Pages 178 to 181)

Kristen Heinlein, CPA

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1 should note that the date in the upper
2 right-hand corner is the date I printed it off
3 the document. I couldn't get it to print
4 without it.

5 Do you recall this schedule at all?

6 A. No.

7 Q. Under the bolded section,
8 preliminary G/L balance as of June 30, 1997 --
9 June 30, 1997, the fourth item down there is an
10 item that has year-end administrative
11 adjustments, on the inpatient side a credit
12 entry of 328,000, and then on the outpatient
13 side a credit entry of 3.3 million.

14 Do you recall the terminology
15 year-end administrative adjustments at all?

16 A. No.

17 Q. You don't recall this schedule at
18 all, right?

19 A. No.

20 MR. TORBORG: Why don't we take a
21 break.

22 THE VIDEOGRAPHER: Going off the
23 record at 2:34.

24 (Recess had.)

25 THE VIDEOGRAPHER: Going back on

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1 of the allowance.

2 Q. So even though you're noted as an
3 individual who completed the audit step, you're
4 not the one who did a high level review?

5 A. Correct.

6 Q. How would you characterize your
7 role in assessing the overall reasonableness of
8 the bad debt reserves?

9 MR. McDONOUGH: Object to form.

10 A. I received information from the
11 client, roll-forwards, did my work on them and
12 presented them to my senior. That was pretty
13 much my role in auditing the accounts
14 receivable.

15 Q. Whether or not you were involved
16 with them yourself, are you aware of what types
17 of analytical reviews were utilized by Coopers
18 & Lybrand to assess the bad debt reserves at
19 the AHERF hospitals for the '97 audit?

20 A. No.

21 Q. Were you involved in considering
22 any changes in the economy --

23 A. No.

24 Q. -- with respect to the allowance?

25 A. No.

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1 the record. This is tape number three.

2 Q. Welcome back.

3 If I could ask you to please turn
4 to, in Exhibit 4248, Bates page ending 254,
5 going back in the document a bit.

6 For the record, I've directed Miss
7 Heinlein to part of the '97 accounts receivable
8 work papers that has an audit step titled
9 Assess Reasonableness of the Allowance at
10 6-30-97.

11 The step description provides,
12 "Assess the overall reasonableness of the
13 allowance using an analytical review and/or by
14 considering changes in the economy, any changes
15 in the client's payer mix or collection
16 patterns in any changes in the industry."

17 It's noted to be completed by you,
18 but without a date, and last modified by
19 Christa Porter, September 10th, 1997. Right?

20 A. Yes.

21 Q. Okay. What part, if any, did you
22 take in assessing the overall reasonableness of
23 the bad debt allowance on the various AHERF
24 hospitals' books?

25 A. I didn't assess the reasonableness

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1 Q. How about assessing changes in
2 collection patterns?

3 A. No.

4 Q. You don't recall collecting any
5 information about any of those items?

6 A. Not that I remember.

7 Q. Do you recall if you ever saw any
8 collection of receivables history for the 1997
9 audit?

10 A. I remember looking at like a daily
11 cash spreadsheet, is that what you're referring
12 to?

13 Q. Yes.

14 And you were looking at that for
15 purposes, as you stated earlier, of doing a
16 subsequent receipts testing, right?

17 A. Yes.

18 Q. Other than that, you don't recall
19 looking at any collection history?

20 A. No.

21 Q. If we can go back again to Bates
22 page ending 279 of this exhibit. That is the
23 Hahnemann bad debt reserve calculation and
24 roll-forward.

25 I'm going to be asking you stay

47 (Pages 182 to 185)

Kristen Heinlein, CPA

<p style="text-align: right;">Page 186</p> <p>1 with me on the first page of the schedule. 2 A. Okay. 3 Q. Does it appear on the front page of 4 this schedule that right underneath the line 5 below working paper type, there's something, 6 that's a link to a document, right, the 7 document that follows in the rest of this 8 collection -- or, I'm sorry, the Bates ranges 9 that follow 279? Do you recall that you -- let 10 me rephrase. 11 A. I'm not sure I understand your 12 question. 13 Q. Do you remember that you could link 14 in schedules of the CLASS systems that were 15 created by the client? 16 A. Yes. 17 Q. Is that what we see here? 18 A. Yes. 19 Q. Now, this refers to bad debt 20 calculations dash new methodology, right? 21 A. Yes. 22 Q. Do you recall that AHERF 23 implemented a new bad debt reserving 24 methodology for fiscal year 1997? 25 A. Yes.</p>	<p style="text-align: right;">Page 188</p> <p>1 identification.) 2 - - - - - 3 Q. For the record, what I've handed 4 Miss Heinlein as Exhibit 4312 is a document 5 that I printed off the Meyer version of the 6 CLASS disk that is titled One-line Summary, 7 then talk to Dan, and then has a chart. 8 Miss Heinlein, if you would take a 9 look through that document. It's only one 10 page, I think. 11 A. Okay. 12 Q. Have you had a chance to look 13 through it? 14 A. Yes. 15 Q. Do you recall this document? 16 A. No. 17 Q. Do you recall that within a CLASS 18 system you could write review comments to one 19 another with respect to audit issues? 20 A. Yes. 21 Q. Is that what this -- instead of 22 actually being a work paper number or an issue 23 document? 24 A. Yes. 25 Q. That's what this document is?</p>
<p style="text-align: right;">Page 187</p> <p>1 Q. What do you recall about that? 2 A. What I remember is the Delaware 3 Valley hospitals did not have as stringent of a 4 reserve methodology as AGH, as the Pittsburgh 5 hospitals, and the accounting department tried 6 to mimic AGH's methodology on the Delaware 7 Valley hospitals. 8 Q. How did you learn about the fact 9 that the Delaware Valley hospitals didn't have 10 as strongly reserved percentages as AGH? 11 A. I don't know. 12 Q. Just something you remember -- 13 A. Yes. 14 Q. -- right? 15 Do you know why AHERF attempted to 16 follow the Allegheny General Hospital 17 methodology? 18 A. No. 19 Q. Do you recall if the Allegheny 20 General Hospital methodology was a methodology 21 that Coopers was more comfortable with? 22 A. I don't remember. 23 - - - - - 24 (Thereupon, Deposition Exhibit 4312 25 was marked for purposes of</p>	<p style="text-align: right;">Page 189</p> <p>1 A. Yes. 2 Q. This is a document you created on 3 June 4th, 1997 and last modified on June 9th, 4 1997. 5 I want to direct your attention to 6 the last item on the cell to the left where it 7 says, methodology for allowance percentages, 8 then DV entities. 9 Then at the top it said talked to 10 Dan. 11 Do you recall having any 12 discussions with Mr. Cancelmi about the bad 13 debt reserve percentages? 14 A. Not that I remember. 15 Q. Do you recall any discussions 16 within Coopers about the new bad debt reserving 17 methodology? 18 A. No, just knowing that I knew they 19 had a new methodology. I don't remember any 20 specific conversations. 21 Q. Just to see if it refreshes your 22 recollection, though, do you recall any 23 discussion within Coopers noting that the 24 reserved percentages were too conservative, not 25 conservative enough, about right, anything</p>

48 (Pages 186 to 189)

Kristen Heinlein, CPA

<p style="text-align: right;">Page 190</p> <p>1 along those lines?</p> <p>2 A. No.</p> <p>3 Q. This document also refers to DV</p> <p>4 entities, right?</p> <p>5 A. Yes.</p> <p>6 Q. Do you have an understanding of</p> <p>7 what DV entities means?</p> <p>8 A. Delaware Valley entities.</p> <p>9 Q. Would that be the hospitals within</p> <p>10 the Delaware Valley Obligated Group entities?</p> <p>11 A. Yes, not Graduate.</p> <p>12 Q. Did you have an understanding</p> <p>13 during the 1997 audit of who was evaluating the</p> <p>14 propriety of the new reserve percentages?</p> <p>15 MR. McDONOUGH: Object to form.</p> <p>16 MR. TORBORG: Why don't you -- I'm</p> <p>17 going to ask you to clarify that one.</p> <p>18 MR. McDONOUGH: Propriety is a word</p> <p>19 that I don't understand in a sense that it</p> <p>20 isn't moral.</p> <p>21 MR. TORBORG: It isn't what?</p> <p>22 MR. McDONOUGH: Moral.</p> <p>23 MR. TORBORG: Moral, okay.</p> <p>24 Q. Do you recall any discussions or</p> <p>25 did you have an understanding at the time of</p>	<p style="text-align: right;">Page 192</p> <p>1 just to see if you recall them? I'll have some</p> <p>2 specific questions for you in a moment.</p> <p>3 A. Yes.</p> <p>4 Q. Do you recall these documents?</p> <p>5 A. No.</p> <p>6 Q. You said that 4252 out of the step</p> <p>7 description provides review client summary of</p> <p>8 accounts greater than 90 days old with balances</p> <p>9 exceeding \$100,000.</p> <p>10 Investigate Medicare/Medicaid</p> <p>11 balances greater than 120 days through client</p> <p>12 inquiry to determine collectibility.</p> <p>13 Consider reclassifying old</p> <p>14 Medicare/Medicaid balances to self-pay,</p> <p>15 including in the bad debt reasonableness test.</p> <p>16 Consider uncollectible balances in determining</p> <p>17 reasonableness of overall accounts receivable</p> <p>18 allowances.</p> <p>19 Whether you recall these documents,</p> <p>20 do you recall testing old account balances?</p> <p>21 A. No.</p> <p>22 Q. Do you know why the audit step</p> <p>23 required a review of account balances over 90</p> <p>24 days old with balances exceeding \$100,000?</p> <p>25 A. Missed accounts receivable that's</p>
<p style="text-align: right;">Page 191</p> <p>1 the 1997 audit about who, if anyone, within</p> <p>2 Coopers was evaluating the reasonableness of</p> <p>3 the new bad debt reserve percentages?</p> <p>4 A. Amy and Christa.</p> <p>5 Q. Did you have an understanding of</p> <p>6 how they were evaluating the reasonableness of</p> <p>7 those percentages?</p> <p>8 A. No.</p> <p>9 Q. Do you recall who within AHERF</p> <p>10 developed the new methodology?</p> <p>11 MR. McDONOUGH: Object to form.</p> <p>12 A. I think it was Robin Schaffer in</p> <p>13 conjunction with Dan Cancelmi.</p> <p>14 Q. I'm going to show you two exhibits</p> <p>15 at the same time here.</p> <p>16 For the record, I have shown the</p> <p>17 witness Exhibit 4252 and Exhibit 4253.</p> <p>18 4252 is an audit step name, test</p> <p>19 old account balances at 6-30-97.</p> <p>20 Then Exhibit 4263 is a, at least a</p> <p>21 front page, appears to be a pouch sheet titled</p> <p>22 AHERF high dollar accounts, old account</p> <p>23 balances.</p> <p>24 Miss Heinlein, have you had a</p> <p>25 chance to look through both of these documents</p>	<p style="text-align: right;">Page 193</p> <p>1 over 120 days old has a chance of not being</p> <p>2 collectible. Exceeding \$100,000, I'm not sure</p> <p>3 why that dollar limit was used.</p> <p>4 Q. And do you know why there was a</p> <p>5 second set -- second sentence stated to</p> <p>6 investigate Medicare and Medicaid balances</p> <p>7 greater than 120 days to determine</p> <p>8 collectibility, right, through client inquiry</p> <p>9 to determine collectibility?</p> <p>10 MR. McDONOUGH: Right, that's what</p> <p>11 the sentence says, the question is do you know</p> <p>12 why it says that?</p> <p>13 MR. TORBORG: Yes. Thank you.</p> <p>14 A. Medicare and Medicaid are slower</p> <p>15 payers.</p> <p>16 Q. So the time frame to get concerned</p> <p>17 is a little longer?</p> <p>18 A. Yes.</p> <p>19 Q. On Exhibit 4253, the front page of</p> <p>20 this exhibit has some handwriting on it. And</p> <p>21 do you recognize that handwriting?</p> <p>22 A. It's mine.</p> <p>23 Q. Under the second note below there,</p> <p>24 it says, "Per inquiry with Bill Gedman and</p> <p>25 through the review of the account status for</p>

49 (Pages 190 to 193)

Kristen Heinlein, CPA

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1 what Miss Frazier meant when she wrote
2 "eliminate entry and evaluate against other
3 reserves"?

4 MR. STEINBERG: Object to form.

5 A. I don't remember what I knew at
6 that time.

7 Q. As you sit here today, do you have
8 any understanding of what that means?

9 A. Eliminate the entry, delete the
10 entry and evaluate against other reserves,
11 probably the reserves that they already had on
12 their books.

13 Q. Bad debt reserves?

14 A. Bad debt reserves.

15 Q. Does the phraseology "other
16 reserves" mean anything to you?

17 A. No.

18 Q. If I could ask you again to flip to
19 4248, the large collection of accounts
20 receivable documents. This time at Bates page
21 ending 178.

22 For the record, I've directed Miss
23 Heinlein's attention to the step name titled
24 Test Accuracy of Supporting Documentation,
25 paren, Below Maximum, end paren, dash HCRG.

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1 Completed by Kristen Heinlein on September 8th,
2 1997; last modified by Christa Porter on
3 9-10-97.

4 Then the schedule behind it is a
5 work paper number 0053-75, working paper name,
6 HCRG testing.

7 And then I think you'll see that
8 there's a better copy of what's on Bates page
9 180 and 181 at -- that's Bates page 181A and B,
10 and C.

11 If you would take a look through
12 both the audit step and the schedule behind it.

13 A. Okay.

14 Q. Have you had a chance to take a
15 look at that to the extent necessary to tell me
16 if you remember the document?

17 A. Yes. I don't remember the document
18 and I did not complete it. Norb Kaliszewski
19 did.

20 Q. Under the audit step work paper at
21 Bates ending 178, the step comments.

22 A. Yes.

23 Q. That starts out with summary from
24 Norb Kaliszewski --

25 A. Yes.

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1 Q. -- audit procedures; did you write
2 that language?

3 A. Yes.

4 Q. And then you also wrote below that,
5 "C&L examined 100 patient accounts with
6 Delaware Valley and noted the following." Then
7 it lists some statistics, right?

8 A. Yes.

9 Q. That was based on Norb's audit
10 procedures, right?

11 A. Yes.

12 Q. Do you know why Mr. Kaliszewski was
13 only examining accounts for the Delaware
14 Valley?

15 A. No.

16 Q. Do you know -- let me ask you this.
17 Do you recall discussing the results of Mr.
18 Kaliszewski's audit procedures with anyone else
19 at Coopers?

20 A. No.

21 Q. Do you know the -- the step
22 description states, "Test propriety of detailed
23 listing based on supporting documentation, EG,
24 medical records and propriety of DRG
25 assignment," right?

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1 A. Yes.

2 Q. That's the step description.

3 And then the step comments lists
4 statistics about the average number of days to
5 bill, average number of days from discharge to
6 payment, that kind of thing.

7 How does that relate to testing the
8 propriety of the detailed listing, the step
9 description?

10 A. I don't know. I didn't do --
11 perform the testing.

12 Q. Do you know what the purpose of
13 Norb's testing was and the results of his
14 testing?

15 A. No.

16 Q. Do you recall any discussions with
17 anyone else at Coopers about a payment -- a
18 slowdown of payments received by payers in the
19 Delaware Valley?

20 A. No.

21 Q. If I can ask you, please, to flip
22 back a couple of pages to the Bates page ending
23 172.H of Exhibit 4248.

24 Miss Heinlein, this is a particular
25 page in the schedule we looked at earlier, the

55 (Pages 214 to 217)

Kristen Heinlein, CPA

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1 aging schedule, that compared the Greg Snow
2 method to the C&L method, right?

3 A. Is it 173, perhaps?

4 Q. I'm sorry, 172. You know, I guess
5 you could probably look at 172, but you can
6 also look at 172.H in the same document. I
7 think you can read 172.

8 MR. McDONOUGH: Well, the question
9 is whether it's 173 because we don't seem to
10 have a 172.

11 Q. I'm sorry, let's just go to that
12 one since you're closer to that one, 173.H.

13 This, again, is part of the
14 schedule we looked at earlier, right, the
15 schedule of agings?

16 A. Yes.

17 Q. At the top of that page is a
18 paragraph that states, "It should be noted that
19 AHERF implemented a past statute project during
20 FY '97.

21 "This project entailed identifying
22 all past statute accounts in Delaware Valley
23 and then writing off those accounts.

24 "In total, 80 million dollars was
25 written off during the course of FY '97.

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1 "The agings compared 1997 versus
2 1996 looked to be improving, however, this
3 improvement is as a result of the write-offs.

4 "PATCOM, paren, the prior A/R
5 system at Elkins, Bucks and HCH -- I'm sorry,
6 SCHC, end paren, write-offs total approximately
7 34 million dollars.

8 "The FY '97 agings for these three
9 entities definitely show improvement over FY
10 '96 due to the write-offs.

11 "It is difficult to analyze the
12 agings and determine if the aging buckets,
13 especially those greater than 180 days, have
14 shown improvement over the prior year due to
15 the large amount of write-offs."

16 Miss Heinlein, do you recall AHERF
17 implementing a past statute project?

18 A. I don't remember what past statute
19 means, but I do remember them writing off old
20 accounts receivable.

21 - - - - -
22 (Thereupon, Deposition Exhibit 4314
23 was marked for purposes of
24 identification.)
25 - - - - -

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1 Q. For the record, what I've marked as
2 Exhibit 4314 is another one-line summary
3 document titled Based on What I'm Seeing,
4 comma, created by Amy Frazier on December 11th,
5 1997; last modified and answered by Kristen
6 Heinlein on the same day, December 11th, '97.

7 If you could take a look at that
8 document.

9 A. Okay.

10 Q. In her review comment, Miss Frazier
11 wrote, "The accounts are continuing to
12 deteriorate by virtue that patient accounting
13 is writing off old accounts and the other
14 accounts are continuing to deteriorate. Again,
15 I get back to the fact that the reserve
16 methodology is reasonable, it's that they're
17 not working the accounts to the point that they
18 are setting up a separate department to muddle
19 through them; otherwise, to date, they just
20 write them off because they do not want to deal
21 with them. Am I on track?"

22 Let me ask you first before we get
23 into your response, do you recall Miss Frazier
24 ever commenting that she felt the Delaware
25 Valley or the new AHERF methodology was

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1 reasonable?

2 A. No.

3 Q. In your response to Miss Frazier's
4 comment, you wrote, "I'm not sure that they do
5 not want to deal with them. I think it's the
6 fact that there are not people to work the
7 accounts or bills are going out without -- with
8 errors and they are not being corrected before
9 they are sent out again.

10 "Yes, they are continuing to write
11 off old accounts because they are past statute
12 or they feel they will never get paid."

13 Do you recall the term past
14 statute?

15 A. No.

16 Q. As you sit here today, do you have
17 an understanding of what it is referring to?

18 A. I think so.

19 Q. What is your understanding?

20 A. That they're over and above the day
21 that they don't -- or over and above a time
22 frame in which they will never be collected.

23 Q. What did you mean when you said
24 "I'm not sure that they do not want to deal
25 with them"?

56 (Pages 218 to 221)